

Fiscal Note

Fiscal Services Division



SF 522 – Commercial Property Tax (LSB 1908SV)

Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version – As passed by the Senate

Description

Senate File 522, as passed by the Senate, creates a business property tax credit for commercial, industrial, and railroad property. The property tax credit is funded through an annual General Fund appropriation to a new Business Property Tax Credit Fund.

The credit first applies to property taxes paid during FY 2013 and a standing limited appropriation of \$50.0 million is created to fund the credit. For each property parcel, or for each property unit, whichever is applicable, the tax credit will equal the tax dollar difference between the taxes due as a commercial or industrial property and the taxes due as a residential property, calculated on a predetermined base value. This “Credit Base” value will be established each year by the Department of Revenue and it will be calculated using the taxed value of every eligible business property, each eligible property’s tax rate, and 98.0% of the funds available each year to finance the credit. The Credit Base will be the same for all eligible business properties in the State.

The eligible business property owner will receive the benefit of the credit through a lower property tax payment. The State distributions from the Business Property Tax Credit Fund will reimburse local governments for the revenue loss associated with the new credit.

The Bill provides that if the year-over-year General Fund revenue growth of the State exceeds 4.0%, the standing limited appropriation is increased by \$50.0 million. This increase may occur no more than three times, so the maximum annual appropriation is \$200.0 million. If General Fund revenue grows 4.0% or more for FY 2012, FY 2013, and FY 2014, the \$200.0 million could first be reached FY 2016.

Background

Tax credit calculation: The tax credit is calculated on building/improvement value only and it only applies to value subject to tax (*i.e.*: It does not apply to value that is exempt from property tax.) For an individual property parcel classified as commercial or industrial, the taxed building value is first compared to the Credit Base. If the taxed building value is below the Credit Base for that year, the taxed building value is used in the tax credit calculation. If the taxed building value is equal to or above the Credit Base, the Credit Base is used in the tax credit calculation. The amount of the tax credit for each eligible property will be calculated by the following formula:

$$\text{Tax Credit} = V \text{ times } (A \text{ minus } B) \text{ times } R$$

Where:

V = either the taxed building value or the Credit Base, whichever is lower

A = the applicable business class rollback in effect for that tax year (commercial or industrial)

B = the residential rollback for that year

R = the consolidated property tax rate for the property that year, divided by \$1,000

Credit Base Calculation: The task of the Department of Revenue, prior to the start of each fiscal year, will be to accumulate the taxed building value and applicable tax rate for each eligible business property, and to then calculate what Credit Base value would expend 98.0% of the funds available for financing the credit in the upcoming year. That Credit Base will be transmitted to county officials to prepare the property tax statements for the eligible properties.

Fiscal Impact

Assuming an accurate calculation of the Credit Base, \$49.0 million for the tax credit program will be distributed in FY 2013 and the Business Property Tax Credit Fund will retain \$1.0 million, plus any interest earned, for distribution in FY 2014.

For FY 2014, the balance in the Business Property Tax Credit Fund and the FY 2014 General Fund appropriation of either \$50.0 million or \$100.0 million will be included when calculating the Credit Base for FY 2014. The Department of Revenue will determine the appropriate Credit Base for FY 2014 based on 98.0% of the funds available for distribution.

Going forward, the credit base will be calculated using 98.0% of the funds available each year.

The new tax credit will require additional forms and administrative costs for county offices and the Iowa Department of Revenue. The administrative costs will first occur in FY 2012. The additional costs after the first implementation year should be minimal.

Sources

Iowa County and City Assessors
Legislative Services Agency Analysis
Department of Revenue

/s/ Holly M. Lyons

April 26, 2011

The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
